

PERFORMANCE AUDIT
OF THE
USE OF STATE GRANT FUNDS BY VETERANS SERVICE
ORGANIZATIONS

VETERANS AFFAIRS DIRECTORATE
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

August 2001

EXECUTIVE DIGEST

USE OF STATE GRANT FUNDS BY VETERANS SERVICE ORGANIZATIONS

INTRODUCTION	This report, issued in August 2001, contains the results of our performance audit* of the Use of State Grant Funds by Veterans Service Organizations (VSOs), Veterans Affairs Directorate, Department of Military and Veterans Affairs.
AUDIT PURPOSE	This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.
BACKGROUND	<p>The 11 VSOs subject to our audit provide varying types of services to the veteran* community, including representation on legislative matters affecting veterans, financial assistance, job placement assistance, educational assistance and training, community service, and youth activities. The primary function, shared by all VSOs, is to provide assistance to veterans (including their surviving spouses and dependents) in obtaining entitled benefits, primarily from the United States Department of Veterans Affairs.</p> <p>The State, through the Department, provides grant funds annually, principally to the 11 VSOs. The requirements for</p>

* See glossary at end of report for definition.

the use of these State grant funds are contained in the Department's annual appropriations act. These requirements stipulate that State grant funds shall be used only for the salaries, wages, related personnel costs, training, and equipment for accredited veteran service advocacy officers* and necessary support and managerial staff.

During fiscal year 1998-99, the VSOs employed 75.5 employees centrally in Detroit and an additional 34.5 located throughout the State. Of the 75.5 employees in Detroit, 40 were veteran service advocacy officers and 35.5 were clerical and support staff. The 34.5 employees located throughout the State were also veteran service advocacy officers, located at the discretion of the individual VSOs.

State grant funds provided to the 11 VSOs exceeded \$3.8 million for fiscal year 2000-01.

AUDIT OBJECTIVES
AND CONCLUSIONS

Audit Objective: To determine what processes are in place to ensure that the VSOs are providing effective services to the veterans of the State of Michigan.

Conclusion: We concluded that there are minimal processes in place to ensure that VSOs are providing effective services to the veterans of the State of Michigan. Our assessment disclosed a reportable condition* regarding the oversight of State grant funds (Finding 1).

Audit Objective: To determine if the VSOs are expending the State grant funds for the purposes stated in the appropriations acts.

* See glossary at end of report for definition.

Conclusion: We concluded that the VSOs generally expended State grant funds for the purposes stated in the appropriations acts. However, our assessment disclosed two reportable conditions regarding limits on grant funds expenditures and financial accounting and reporting requirements (Findings 2 and 3).

Audit Objective: To determine if controls over the development and reporting of service-related information are in place to ensure that the information is accurate and reliable.

Conclusion: We concluded that controls over the development and reporting of service-related information did not ensure that the information was accurate and reliable. As a result, this information may not accurately reflect an individual VSO's provision of services to the veteran community in the State of Michigan. In addition, our assessment disclosed reportable conditions regarding controls over service-related information reporting, methodology for recovery computation, and the development of performance standards* and alternative performance indicators* (Findings 4 through 6).

AUDIT SCOPE AND
METHODOLOGY

Our audit scope was to examine the records of the Veterans Affairs Directorate and selected veterans service organizations regarding the use of State grant funds. Our examination included a review of the VSOs' reported recoveries* and activities, financial records, expenditure data, and other records at 8 of the 11 VSOs subject to our audit. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing

* See glossary at end of report for definition.

procedures as we considered necessary in the circumstances.

Our audit procedures included an examination of Directorate and VSO records primarily covering fiscal years 1996-97 through 1998-99.

To accomplish our first objective, we identified the program requirements placed upon the Department, the Directorate, the Michigan Veterans Organizations' Rehabilitation and Veterans Service Committee, and the VSOs in the Department's annual appropriations acts. We interviewed Directorate staff to gain an understanding of their role in the oversight of these State grant funds. We obtained expenditure data from the United States Department of Veterans Affairs to determine how Michigan ranked in comparison with other states in providing similar services to their veteran communities. Also, we contacted other states to gain an understanding of how their delivery systems of services to their veteran communities differed from that of Michigan.

To accomplish our second objective, we reviewed budget requests, financial statements, Internal Revenue Service form 990's*, and other financial information for the 11 VSOs. We identified the financial reporting requirements in the annual appropriations acts and determined the VSOs' compliance with these requirements. We interviewed Directorate and VSO staff to gain an understanding of the uses of the State grant funds at each VSO. We reviewed specific grant funds expenditures for 8 of the 11 VSOs during fiscal years 1997-98 and 1998-99 to determine their appropriateness and allowability.

* See glossary at end of report for definition.

To accomplish our third objective, we identified the service-related reporting requirements in the annual appropriations acts and determined the VSOs' compliance with these requirements. We interviewed the service directors at each VSO to gain an understanding of the processes used to accumulate the service-related information. We also interviewed VSO staff directly involved with the accumulation, computation, and reporting of service-related information. We reviewed specific VSO recovery computations in selected categories for fiscal year 1998-99. We analyzed the required methodology given to the VSOs by the Michigan Veterans Organizations' Rehabilitation and Veterans Service Committee to compute recovery amounts. Also, we determined the VSOs' compliance with the required methodology and assessed the adequacy of the methodology in measuring the VSOs' effectiveness. In addition, we identified revisions to the methodology to simplify the recovery computations and minimize computation errors.

We contacted other states operating similar programs to determine how they provided services to their veteran communities, including the identification of performance indicators and standards used that had applicability to the State of Michigan's grant program.

We did not conduct specific testing of expenditures and recovery computations for the Jewish War Veterans, Polish Legion of American Veterans, or Catholic War Veterans because of their limited State grant funds award amounts and reported recoveries and activities.

AGENCY RESPONSES

Our audit report includes 6 findings and 6 corresponding recommendations. The Department's preliminary response indicated that it agrees with our recommendations.

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August 30, 2001

Major General E. Gordon Stump, Director
Department of Military and Veterans Affairs
2500 South Washington Avenue
Lansing, Michigan

Dear General Stump:

This is our report on the performance audit of the Use of State Grant Funds by Veterans Service Organizations, Veterans Affairs Directorate, Department of Military and Veterans Affairs.

This report contains our executive digest; description of State grant funds; audit objectives, scope, and methodology and agency responses; comments, findings, recommendations, and agency preliminary responses; five exhibits, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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Description of State Grant Funds

The 11 veterans service organizations (VSOs) subject to our audit provide varying types of services to the veteran community, including representation on legislative matters affecting veterans, financial assistance, job placement assistance, educational assistance and training, community service, and youth activities. The primary function, shared by all VSOs, is to provide assistance to veterans (including their surviving spouses and dependents) in obtaining entitled benefits, primarily from the United States Department of Veterans Affairs (VA).

The State, through the Department of Military and Veterans Affairs, provides grant funds annually, principally to the 11 VSOs. The requirements for the use of these State grant funds are contained in the Department's annual appropriations act. These requirements stipulate that State grant funds shall be used only for the salaries, wages, related personnel costs, training, and equipment for accredited veteran service advocacy officers and necessary support and managerial staff.

The Veterans Affairs Directorate, Department of Military and Veterans Affairs, is responsible for overseeing the State grant funds given to VSOs, which are 100% General Fund/general purpose grants. Much of the Directorate's oversight responsibility focuses on the collection of various financial reports required of each VSO. As of September 30, 2000, the Directorate had 3 employees in its central office, which included 1 nonclassified employee.

During fiscal year 1998-99, the VSOs employed 75.5 employees centrally in Detroit and an additional 34.5 located throughout the State. Of the 75.5 employees in Detroit, 40 were veteran service advocacy officers and 35.5 were clerical and support staff. The 34.5 employees located throughout the State were also veteran service advocacy officers, located at the discretion of the individual VSOs. The veteran service advocacy officers were responsible for servicing the general veteran population throughout the 83 counties in Michigan.

The veteran service advocacy officers supported by the State grant funds provide their assistance to veterans (including surviving spouses and dependents) free of charge. The veteran service advocacy officers conduct personal and telephone interviews as well as written correspondence with veterans (including surviving spouses and dependents) to obtain necessary background and information regarding the veterans'

concerns. The veteran service advocacy officers, as necessary, will also gather medical records and file claims and insurance forms on behalf of the veterans (including surviving spouses and dependents) with the VA. Based on the decision of the VA, a veteran service advocacy officer may also assist a veteran (including surviving spouse and dependents) in the appeal of a denied claim with the VA. In order to represent a veteran, a VSO must obtain power of attorney* for that veteran.

Legislative appropriation to the VSOs began in 1927 with an award of \$27,200 to the American Legion. The Veterans of Foreign Wars became a grantee in 1932, and the Disabled American Veterans joined in 1934. By 1960, two more VSOs, the American Veterans of World War II and Korea (AMVETS) and the Marine Corps League, had also become grantees, and the total grant funds for these 5 VSOs was approximately \$543,000. State grant funds provided to the 11 VSOs exceeded \$3.8 million for fiscal year 2000-01. Below is a summary of the 11 VSOs' State grant funds appropriations for fiscal year 2000-01.

State Grant Funds Appropriations to VSOs
Fiscal Year 2000-01

American Legion	\$ 886,000
Veterans of Foreign Wars	886,000
Disabled American Veterans	732,400
AMVETS	464,800
Marine Corps League	336,300
Paralyzed Veterans of America	165,700
Vietnam Veterans of America	159,500
Military Order of the Purple Heart	157,900
Jewish War Veterans	41,200
Polish Legion of American Veterans	41,200
Catholic War Veterans	13,300
Total	<u>\$3,884,300</u>

* See glossary at end of report for definition.

Audit Objectives, Scope, and Methodology and Agency Responses

Audit Objectives

Our performance audit of the Use of State Grant Funds by Veterans Service Organizations (VSOs), Veterans Affairs Directorate, Department of Military and Veterans Affairs, had the following objectives:

1. To determine what processes are in place to ensure that the VSOs are providing effective services to the veterans of the State of Michigan.
2. To determine if the VSOs are expending the State grant funds for the purposes stated in the appropriations acts.
3. To determine if controls over the development and reporting of service-related information are in place to ensure that the information is accurate and reliable.

Audit Scope

Our audit scope was to examine the records of the Veterans Affairs Directorate and selected veterans service organizations regarding the use of State grant funds. Our examination included a review of the VSOs' reported recoveries and activities, financial records, expenditure data, and other records at 8 of the 11 VSOs subject to our audit. We did not include the Veterans of World War I in the scope of our audit. This group is appropriated \$100 each year that is unspent and lapsed to the General Fund. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

Our audit procedures, performed during February through December 2000, included an examination of Directorate and VSO records primarily covering fiscal years 1996-97 through 1998-99.

To accomplish our first objective, we identified the program requirements placed upon the Department, the Directorate, the Michigan Veterans Organizations' Rehabilitation and Veterans Service Committee, and the VSOs in the Department's annual

appropriations acts. We interviewed Directorate staff to gain an understanding of their role in the oversight of these State grant funds. We obtained expenditure data from the United States Department of Veterans Affairs to determine how Michigan ranked in comparison with other states in providing similar services to their veteran communities. Also, we contacted other states to gain an understanding of how their delivery systems of services to their veteran communities differed from that of Michigan.

To accomplish our second objective, we reviewed budget requests, financial statements, Internal Revenue Service (IRS) form 990's, and other financial information for the 11 VSOs. We identified the financial reporting requirements in the annual appropriations acts and determined the VSOs' compliance with these requirements. We interviewed Directorate and VSO staff to gain an understanding of the uses of the State grant funds at each VSO. We reviewed specific grant funds expenditures for 8 of the 11 VSOs during fiscal years 1997-98 and 1998-99 to determine their appropriateness and allowability. We did not conduct specific expenditure testing for the Jewish War Veterans, Polish Legion of American Veterans, or Catholic War Veterans because of their limited State grant funds award amounts.

To accomplish our third objective, we identified the service-related reporting requirements in the annual appropriations acts and determined the VSOs' compliance with these requirements. We interviewed the service directors at each VSO to gain an understanding of the processes used to accumulate the service-related information. We also interviewed VSO staff directly involved with the accumulation, computation and reporting of service-related information. We reviewed specific VSO recovery computations in selected categories for fiscal year 1998-99. We did not conduct specific testing of recovery computations for the Jewish War Veterans, Polish Legion of American Veterans, or Catholic War Veterans because of their limited reported recoveries and activities. We analyzed the required methodology given to the VSOs by the Michigan Veterans Organizations' Rehabilitation and Veterans Service Committee to compute recovery amounts. Also, we determined the VSOs' compliance with the required methodology and assessed the adequacy of the methodology in measuring the VSOs' effectiveness. In addition, we identified revisions to the methodology to simplify the recovery computations and minimize computation errors.

We contacted other states operating similar programs to determine how they provided services to their veteran communities, including the identification of performance indicators and standards used that had applicability to the State of Michigan's grant program.

Agency Responses

Our audit report includes 6 findings and 6 corresponding recommendations. The Department's preliminary response indicated that it agrees with our recommendations.

The agency preliminary response which follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Department of Military and Veterans Affairs to develop a formal response to our audit findings and recommendations within 60 days after release of the report.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

PROCESSES TO ENSURE EFFECTIVE SERVICES

COMMENT

Audit Objective: To determine what processes are in place to ensure that the veterans service organizations (VSOs) are providing effective services to the veterans of the State of Michigan.

Conclusion: We concluded that there are minimal processes in place to ensure that VSOs are providing effective services to the veterans of the State of Michigan. Our assessment disclosed a reportable condition regarding the oversight of State grant funds.

FINDING

1. Oversight of State Grant Funds

The Department of Military and Veterans Affairs' authority and responsibility to oversee the use of State grant funds by VSOs is ambiguous.

Historically, the Department had administered these State grant funds as pass-through grant funds to the VSOs. There were few processes in place to ensure that the program was providing effective services to the veterans of the State.

The Department's annual appropriations act identifies program requirements, which have remained relatively unchanged for many years. These requirements consist of a general listing of categories of allowable uses for the State grant funds; a stipulation that all VSOs participate in the Michigan Veterans Organizations' Rehabilitation and Veterans Service Committee and abide by its rules and programs; and the identification of various VSO reporting and other requirements, as determined by the Department and the Legislature (see Exhibit 1), including the reporting of the VSOs' service-related accomplishments.

During our audit, we identified the following issues indicating a need for increased oversight and coordination of the program:

- a. The current structure does not allow for the establishment of uniform program goals* and intended accomplishments.
- b. The lack of a coordinated outreach effort among the VSOs may have limited the identification of veterans in the State who could have benefited from or were in need of services.
- c. Based on U.S. Department of Veterans Affairs (VA) statistics for 1999 (see Exhibit 2), Michigan ranked well below the national average in compensation* and pension* benefits received, as well as percentages of claims filed. The VSOs informed us that this might be the result of Michigan being a highly industrialized state, which may have provided veterans with greater opportunities for gainful employment, where pay scales and benefit packages could adequately address a veteran's financial and medical needs. However, a formal study has not been completed of the reasons for Michigan's ranking.

Obtaining clarification regarding the authority and responsibility to oversee the program may allow the Department to:

- (a) Establish goals and objectives* for the program.
- (b) Establish methods to measure the accomplishment of the established goals.
- (c) Establish methods of oversight consistent with the operation of the program.
- (d) Study the current methods of service delivery used. Michigan's approach to the delivery of services is different from other states. Many states provide these services to their veterans entirely by a state entity. In other cases, states will combine state entity and VSO involvement.

Throughout the remainder of this report, we identify instances in which the Department can strengthen the administration of the State grant funds and we provide corresponding recommendations. Compliance with these

* See glossary at end of report for definition.

recommendations would improve the process and accuracy of the reporting of service efforts and allow for increased accountability of the State grant funds to VSOs.

RECOMMENDATION

We recommend that the Department seek clarification from the Legislature regarding the Department's authority and responsibility to oversee the use of State grant funds by VSOs.

AGENCY PRELIMINARY RESPONSE

The Directorate agrees with the recommendation. It informed us that it has had preliminary discussions with executive office staff and legislative staff on a practical approach for the Legislature to express appropriate goals for a program assisting veterans and the appropriate role of the VSOs and the Directorate.

USE OF STATE GRANT FUNDS

COMMENT

Audit Objective: To determine if the VSOs are expending the State grant funds for the purposes stated in the appropriations acts.

Conclusion: We concluded that the VSOs generally expended State grant funds for the purposes stated in the appropriations acts. However, our assessment disclosed two reportable conditions regarding limits on grant funds expenditures and financial accounting and reporting requirements.

FINDING

2. Limits on Grant Funds Expenditures

The Department, in conjunction with the VSOs, did not establish categorical limitations on the use of the State grant funds. As a result, the Department was unable to ensure that the State grant funds were used in an efficient manner.

In a letter of understanding with the Department, the VSOs were required to comply with "each and every requirement" set forth in the appropriations act for the State grant funds. Annual appropriations acts stated:

Money appropriated . . . for grants to veterans service organizations shall be used only for salaries, wages, related personnel costs, training, and equipment for accredited veteran service advocacy officers and necessary support and managerial staff.

The Department did not use the letter of understanding to limit the amount of money VSOs may expend in each category.

In our audit of expenditures, we observed that the funds were being expended consistently within the broad categories established in the annual appropriations acts. However, we did identify areas in which limitations on the use of the funds may have reduced the costs to the program or allowed increased funds to become available for the direct delivery of services to the veterans:

a. Travel

We identified wide variations in how each VSO reimbursed its employees for travel. Some VSOs were using the State's *Standardized Travel Regulations** as the basis for reimbursement. One VSO established reimbursement rates that were in excess of the *Standardized Travel Regulations*. Another VSO reimbursed employees for meals at one rate when supported by receipts and at a lesser rate when unsupported. A third VSO reimbursed employees at actual cost, regardless of the amount, if supported by receipts.

We also noted that some VSOs reimbursed mileage at rates that exceeded those in the *Standardized Travel Regulations*. We identified one VSO that reimbursed employees based on actual gasoline receipts as opposed to a per mile rate. Another VSO reimbursed an employee for automobile insurance for the employee's private vehicle, used for business purposes, without an allocation of the insurance premium cost for personal use of the vehicle.

* See glossary at end of report for definition.

b. Staffing Levels

We noted a ratio of 2 veteran service advocacy officers to 1 VSO support staff. While this may be considered acceptable, the Department should establish an acceptable ratio to help ensure the most efficient use of State grant funds by the VSOs.

c. Office Equipment

We identified one VSO that expended approximately \$55,000 in 1999 to upgrade primarily two of its offices, including the purchase of new desks, chairs, file cabinets, and computer equipment. The money was part of approximately \$69,000 returned to the VSO as the result of an overpayment into the State Retirement System for its employees in the previous year. While it is necessary to renovate and upgrade office equipment from time to time, limitations on the amount that is chargeable to State grant funds would allow for the direction of more funds to areas that would provide a more direct benefit to the program.

d. Office Rent

We identified one VSO that annually expended \$6,000 of State grant funds in fiscal years 1997-98 and 1998-99 for the rental of office space. This was a questionable expenditure because the VA's Detroit Regional Office provides space free of charge to all VSOs. The VSO did not consider the space provided to be adequate for its needs.

Establishing limitations on the expenditures within the broad categories would allow the Department to ensure that the State grant funds are directed toward providing services to the veterans of the State.

RECOMMENDATION

We recommend that the Department, in conjunction with the VSOs, establish categorical limitations on the use of the State grant funds.

AGENCY PRELIMINARY RESPONSE

The Directorate agrees with the recommendation. It informed us that it intends to meet with the VSO Rehabilitation and Veterans Service Committee to work in concert toward a standard definition of reimbursement categories and limitations.

FINDING

3. Financial Accounting and Reporting Requirements

The Department had not established a comprehensive financial accounting and reporting process for State grant funds.

The annual appropriations acts have required each VSO to file with the Department a certified accounting of its expenditures within 120 days after the VSO's fiscal year-end. In addition, each VSO has been required to provide a detailed budget request for the fiscal year as well as a copy of the VSO's Internal Revenue Service form 990. This form summarizes the financial activities of a nonprofit organization.

The Department had not established the reporting requirements necessary to complete an effective analysis among the VSOs or to evaluate the VSOs' actual expenditures with the budgeted expenditures.

In our audit, we noted:

- a. The Department had not established a uniform reporting period for the financial information. This resulted in inconsistent reporting by the VSOs, which limits the ability of the Department to analyze the information submitted.

All of the required budgetary information is prepared using the State's fiscal year. However, the VSOs provide their financial reports using either the State's fiscal year or their own. Further, some VSOs submitted reports using both the State's fiscal year and their own. The establishment of a standard reporting period would allow for a complete analysis of the information submitted and greater comparability among the individual VSOs.

- b. The Department did not require a separate accounting for the State grant funds. This limits the accountability over the use of State grant funds. Most of the VSOs we visited commingled State grant funds with other revenues from their national organizations and fundraising activities. It is a standard accounting practice in government and nonprofit organizations to separately account for the uses of grant funds.

- c. The Department did not require the VSOs' budgetary requests to contain sufficient detail to allow the Department to review the planned spending by the VSOs and their compliance with intended uses of the State grant funds.

Requiring a separate accounting and reporting of State grant funds would help increase VSO accountability and help ensure that State grant funds are used for the purposes for which they were appropriated.

We also noted that the Department did not ensure that it received certified financial statements from all VSOs. Annual appropriations acts have required each VSO to submit "a certified accounting of its expenditures" to the Department. Though not explicitly stated, this essentially requires that a VSO's financial statements be audited by an external accounting and auditing expert, usually a certified public accountant, regardless of the amount of State grant funding received by the VSO. During our review, we noted that 3 of the 11 VSOs had submitted financial statements that had not been certified. Certified financial statements would increase the value, reliability, and usefulness of the financial information presented because the statements would be audited by an individual who is independent of the reporting organization.

However, the Department should develop alternative methods of obtaining reliable financial information and request the necessary changes to the appropriations act requirements. In some cases, the cost of an audit may not be justified in relation to the amount of the grant funds received by a VSO. Alternatives may include requiring less frequent audits of VSOs that receive grant funds amounts below a certain threshold or using the Department's internal auditor to periodically audit the organizations.

RECOMMENDATION

We recommend that the Department establish a comprehensive financial accounting and reporting process for State grant funds.

AGENCY PRELIMINARY RESPONSE

The Directorate agrees with the recommendation. It informed us that, pending legislative clarification recommended by Finding 1, it will begin the identification of reasonable, practical, and standardized accounting procedures that 11 independent nongovernmental agencies can meet.

CONTROLS OVER SERVICE-RELATED INFORMATION

COMMENT

Background: The Michigan Veterans Organizations' Rehabilitation and Veterans Service Committee is composed of the service director (or equivalent) of each of the 11 VSOs receiving State grant funds as well as the assistant directors of the American Legion, Veterans of Foreign Wars, and Disabled American Veterans. The purpose of the Committee, according to its Annual Report of Combined Recoveries and Activities, is:

. . . to provide an instrument for the recording of service information so that it can be utilized as (1) a basis for measuring range and quality of services rendered; (2) a control to prevent unnecessary field coverage; (3) a means of informing the Executive and Legislative branches of the State and other interested parties of the combined activities and recoveries.

Annual appropriations acts require all VSOs to "Be an active participating member of the Michigan veterans organizations' rehabilitation and veterans service committee and abide by its rules, guidelines, and programs."

Annual appropriations acts also require the VSOs to "Comply with the department's and the legislature's requirements of . . . service work activity, accounting of recoveries, listing of volunteer hours . . . and other requirements. . ." as specified. (See Exhibit 3 for the combined recoveries for all VSOs for fiscal year 1998-99.) In its Annual Reports, the Committee identified the required methods for computing and reporting benefits recoveries that the VSOs assisted veterans in obtaining from the VA. (See Exhibit 4 for the methods of computation for compensation and pension recoveries.)

Audit Objective: To determine if controls over the development and reporting of service-related information are in place to ensure that the information is accurate and reliable.

Conclusion: We concluded that controls over the development and reporting of service-related information did not ensure that the information was accurate and reliable. As a result, this information may not accurately reflect an individual VSO's provision of services to the veteran community in the State of Michigan. In addition, our

assessment disclosed reportable conditions regarding controls over service-related information reporting, methodology for recovery computation, and the development of performance standards and alternative performance indicators.

FINDING

4. Controls Over Service-Related Information Reporting

The Department and the Committee had not established appropriate controls to ensure the accuracy of the VSOs' recovery computations and their compliance with the required methods of recovery computations.

As required by annual appropriations acts, the individual VSOs prepare a report of recoveries and activities for each grant funds award period (State's fiscal year) and submit the reports to the Committee. The Committee compiles the information from the individual VSOs' reports into the Annual Report of Combined Recoveries and Activities. The Committee then submits the Annual Report and the individual VSOs' reports to the Veterans Affairs Directorate and Legislature. Neither the Committee nor the Directorate had a process in place to review the individual VSOs' reports for accuracy and compliance with the required methods of computation.

In our review of the VSOs' documentation of reported recovery amounts computation for selected categories, we identified numerous instances in which the VSOs did not follow the Committee's prescribed methods of computation. These errors generally overstated the reported recovery amounts. We also identified other more basic errors, including mathematical errors, recoveries reported in the wrong category, and the inclusion of a single event in multiple recovery categories.

The results of our review were similar to the results of past reviews done by the Committee. More than one VSO's service director informed us that, on at least two occasions (the most recent in 1997), the Committee chair had established an informal subcommittee to review the recovery computation methods actually used at the VSOs. Both reviews concluded that the VSOs reviewed were not following the required computation methods.

Establishing a process to review the accuracy of recovery computations and compliance with the required methods of computation would help ensure the

compilation of an accurate Annual Report that reflects the services provided to the veterans of the State.

RECOMMENDATION

We recommend that the Department and the Committee establish appropriate controls to ensure the accuracy of the VSOs' recovery computations and their compliance with the required methods of recovery computations.

AGENCY PRELIMINARY RESPONSE

The Directorate agrees with the recommendation. It informed us that it will work in concert with the Rehabilitation and Veterans Service Committee to develop accurate recovery computations.

FINDING

5. Methodology for Recovery Computation

The methodology for computing recoveries did not provide for consistent application among the VSOs when reporting service-related activities.

In our review, we noted that the current methodology, presented in Exhibit 4, provides limited guidance and is often subject to interpretation by the VSOs. We identified various interpretations that, when applied by some of the VSOs, diminished the comparability of information among all VSOs. Further, some VSOs did not use the established methodology, instead using guidance provided by their national organization.

For example, if a VSO assisted a veteran in obtaining an increase to an existing compensation award, the current methodology instructs the VSO to report a compensation increase recovery in the amount of the additional award increment multiplied by twelve months. If later, within the 12-month period, the veteran's compensation award increased again, the VSO would again report a compensation increase recovery in the amount of the additional award increment multiplied by twelve months. Some of the VSOs went through a time-consuming process to ensure that compensation increase recoveries were not reported more than once for the same time period to avoid duplicate reporting. Other VSOs did not share this concern and reported all amounts. Still other VSOs computed compensation increase recoveries based on the entire award amount, which was not allowed

under the current methodology (see Finding 4). All of these circumstances, in effect, reduced the accuracy and comparability of reported recoveries.

Also during our review, we identified several components of the computation process that could be simplified to increase the accuracy and consistency of the computations:

a. Eliminate annualizing awards.

In the computation of the award amount recovered, the VSOs were instructed to annualize the amount of the award in order to reflect the amount of the recovery over a 12-month period. It does not appear that the annualizing of the award is necessary or even preferable as the annualizing reflects the reporting of credits for events that have yet to occur. Any additional efforts associated with the award should be accounted for as they occur. Also, the annualizing of the award increases the risk of computation errors and duplicate award reporting in cases in which the benefit amount changes during the annual reporting period.

b. Establish separate reporting components within each category for retroactive awards.

The compensation new claims, pension new claims, and compensation increases in awards categories all allow for the inclusion of retroactive awards (payments) to veterans as a component of the recovery amount. However, the computation of these recoveries does not distinguish between retroactive awards and current awards. By not separating these two components, an analysis and evaluation of VSO efforts for retroactive recoveries cannot be completed.

c. Provide additional guidance to the VSOs for the reporting of cost-of-living allowance (COLA) increases.

The Committee's computation methodology is silent as to how to report COLAs. The Committee chair stated that a general, unwritten rule is that when an award letter reflects other activity and also includes COLA, the VSOs should include the COLA in any recovery computation. However, not all VSOs included COLAs in their recovery computations. Also, one VSO annually

reviewed all of its pension cases and computed pension confirmed and continued recoveries based on COLAs, regardless of whether the VSO had any direct input in the case.

The development of a mutually acceptable and simplified methodology combined with VSO compliance with the methodology would increase the accuracy, consistency, and overall value of the Committee's Annual Report of Combined Recoveries and Activities.

RECOMMENDATION

We recommend that the Committee, in conjunction with the Department, simplify and clarify the methodology for recovery computation used in the reporting of service-related activities.

AGENCY PRELIMINARY RESPONSE

The Directorate agrees with the recommendation. It informed us that it will work in concert with the Rehabilitation and Veterans Service Committee to develop a clear and simple technique for recovery computations.

FINDING

6. Development of Performance Standards and Alternative Performance Indicators

The Department, in conjunction with the Committee, has not developed performance standards and alternative performance indicators for use with or in place of the existing reporting requirements to evaluate VSO services provided to the veterans of the State of Michigan.

The Committee's Annual Report of Combined Recoveries and Activities is the primary source of information that can be used to evaluate the performance of the VSOs in providing services to the veterans of the State. The Annual Report primarily details the estimated level of recoveries by defined category obtained during the grant year. The Department had not, however, developed standards that it could use as a means of putting the reported results into perspective. For example, the Department may want to obtain information from other states to determine how well the VSOs are doing in providing services. The conclusions reached when evaluating the Annual Report that reported \$40 in benefits recovered for every dollar expended would be different if the surrounding states'

average was \$80 or \$20 of recovery per dollar expended. While the Department may not be able to obtain an estimate of other states' recoveries per dollar expended, discussions with the other states would allow the Department to restructure the Annual Report to provide information in a format that is comparable.

In addition, the Annual Report could also contain additional information on other areas associated with this type of service, such as the number of veterans served in relation to the veteran population or the veterans' satisfaction with the services provided.

The Department, as a method of supplementing the current Annual Report, should also look to other sources of information to further evaluate the program. Possible information sources include:

a. VA-produced reports.

During the audit, the VA provided us with a report (see Exhibit 5) that showed total VA expenditures in the State of Michigan by power of attorney code. A power of attorney is required to represent the veterans with the VA. The report provided useful information for the review and comparison of VSO activity. The Department should work with the VA to receive this and other VA reports to provide additional information to evaluate VSO performance.

b. Performance standards and performance indicators used by other states operating similar programs to evaluate their effectiveness.

We contacted a number of other states providing similar services to veterans to identify performance standards and alternative performance indicators. Most of the other states we contacted provided services to their veterans at the state level as opposed to grants to VSOs. Three of the states, Florida, Tennessee and Washington, used customer satisfaction surveys as one method of obtaining feedback on the effectiveness of the services provided. Texas used VA actual expenditure data to develop comparisons of dollars recovered on a per capita basis with other states of similar size. Tennessee also used comparisons of actual VA expenditure data on a state-by-state basis.

Other states have established standards in categories such as the number of cases reviewed, daily logs of phone calls and contacts, and the timely reviews of rating decisions. Although the Committee's Annual Report includes some of this information, no benchmarks exist to evaluate VSO performance in these categories.

The development of performance standards and alternative performance indicators would provide a perspective to analyze how effective the VSOs are in providing services to the veterans of the State of Michigan.

RECOMMENDATION

We recommend that the Department, in conjunction with the Committee, develop performance standards and alternative performance indicators for use with or in place of the existing reporting requirements to evaluate VSO services provided to the veterans of the State of Michigan.

AGENCY PRELIMINARY RESPONSE

The Directorate agrees with the recommendation. It informed us that it will work in concert with the Rehabilitation and Veterans Service Committee to develop performance standards and indicators to measure effectiveness of the services provided to Michigan's veterans.

SUPPLEMENTAL INFORMATION

USE OF STATE GRANT FUNDS BY VETERANS SERVICE ORGANIZATIONS

Annual Program Requirements

Act 266, P.A. 2000

VETERANS SERVICE ORGANIZATIONS

Sec. 501. (1) Money appropriated in section 105 for grants to veterans service organizations shall be used only for salaries, wages, related personnel costs, training, and equipment for accredited veteran service advocacy officers and necessary support and managerial staff. Training shall be provided for service advocacy officers and shall be conducted by accredited advocacy officers.

(2) To receive a grant from the money appropriated in section 105, a veterans service organization shall meet the following eligibility requirements:

- (a) Be congressionally chartered by the United States Congress.
- (b) Be an active participating member of the Michigan veterans organizations' rehabilitation and veterans service committee and abide by its rules, guidelines, and programs.
- (c) Demonstrate the receipt of monetary or service support from its own organization.
- (d) Comply with the department's and the legislature's requirements of accounting audits, service work activity, accounting of recoveries, listing of volunteer hours, budget requests, and other requirements specified in subsection (3).
- (e) For a veterans service organization founded after September 30, 1989, be in operation and providing service to Michigan veterans for not less than 2 years before receiving an initial state grant. During this 2-year period of time, the organization shall file a listing of service work activity and an accounting of recoveries with the department, the senate and house fiscal agencies, and the senate and house of representatives subcommittees on military affairs on forms as prescribed by the department.

(3) A veterans service organization receiving a grant from the money appropriated in section 105 shall file with the department a certified accounting of its expenditures within 120 days after the organization's fiscal year end. Each organization shall provide a detailed budget request for the fiscal year ending September 30, 2002 to the department by November 15, 2000 within the format as prescribed by the department to be used in the development of the budget for the fiscal year ending September 30, 2002. Each veterans service organization shall provide 5 copies of a listing of all service activity, an accounting of recoveries, and a listing of volunteer hours for the fiscal year ending September 30, 2000 to the department by January 31, 2001. The listing of volunteer hours shall include the hours, services, and donations provided to residents of the Grand Rapids veterans' home and the D. J. Jacobetti veterans' home. Each veterans service organization shall provide a copy of the most recent and completed internal revenue service form 990 to the department at the end of the fiscal year ending September 30, 2000. A veterans service organization receiving a grant from the money appropriated in section 105 shall use the forms recommended by the Michigan veterans organizations' rehabilitation and veterans service committee for filing reports required by this act. The department shall forward information required under this section to the senate and house fiscal agencies and to the senate and house of representatives appropriations subcommittees on military affairs.

Sec. 502. Appropriations in section 105 for veterans service organizations shall include funding to provide services to veterans of World War I.

USE OF STATE GRANT FUNDS BY VETERANS SERVICE ORGANIZATIONS
VA Actual Compensation and Pension by State
For Calendar Year 1999

State	Veteran Population as of July 1, 1999	Claims	Compensation and Pension	Average Per Veteran	Average Per Claim
ALABAMA	408,000	77,730	\$ 496,248,000	\$ 1,216	\$ 6,384
ALASKA	63,000	10,176	70,454,000	\$ 1,118	\$ 6,924
ARIZONA	443,000	62,684	444,952,000	\$ 1,004	\$ 7,098
ARKANSAS	246,000	48,143	375,995,000	\$ 1,528	\$ 7,810
CALIFORNIA	2,666,000	266,697	1,713,443,000	\$ 643	\$ 6,425
COLORADO	363,000	52,426	341,031,000	\$ 939	\$ 6,505
CONNECTICUT	313,000	26,660	153,281,000	\$ 490	\$ 5,749
DELAWARE	75,000	8,886	53,408,000	\$ 712	\$ 6,010
DISTRICT OF COLUMBIA	46,000	7,541	53,544,000	\$ 1,164	\$ 7,100
FLORIDA	1,652,000	243,355	1,552,188,000	\$ 940	\$ 6,378
GEORGIA	661,000	109,148	695,037,000	\$ 1,051	\$ 6,368
HAWAII	112,000	13,771	95,483,000	\$ 853	\$ 6,934
IDAHO	107,000	15,228	103,480,000	\$ 967	\$ 6,795
ILLINOIS	999,000	80,829	471,991,000	\$ 472	\$ 5,839
INDIANA	564,000	52,418	315,840,000	\$ 560	\$ 6,025
IOWA	273,000	26,938	174,154,000	\$ 638	\$ 6,465
KANSAS	246,000	30,380	192,299,000	\$ 782	\$ 6,330
KENTUCKY	350,000	55,341	370,896,000	\$ 1,060	\$ 6,702
LOUISIANA	349,000	60,215	396,872,000	\$ 1,137	\$ 6,591
MAINE	148,000	23,247	184,148,000	\$ 1,244	\$ 7,921
MARYLAND	505,000	54,763	342,039,000	\$ 677	\$ 6,246
MASSACHUSETTS	549,000	77,309	496,047,000	\$ 904	\$ 6,416
MICHIGAN	898,000	83,821	473,894,000	\$ 528	\$ 5,654
MINNESOTA	437,000	48,688	307,405,000	\$ 703	\$ 6,314
MISSISSIPPI	221,000	44,095	303,457,000	\$ 1,373	\$ 6,882
MISSOURI	556,000	63,021	423,908,000	\$ 762	\$ 6,726
MONTANA	89,000	14,068	99,837,000	\$ 1,122	\$ 7,097
NEBRASKA	158,000	21,406	157,589,000	\$ 997	\$ 7,362
NEVADA	184,000	25,635	158,058,000	\$ 859	\$ 6,166
NEW HAMPSHIRE	130,000	16,683	117,259,000	\$ 902	\$ 7,029
NEW JERSEY	682,000	66,533	394,235,000	\$ 578	\$ 5,925
NEW MEXICO	165,000	28,916	223,563,000	\$ 1,355	\$ 7,731
NEW YORK	1,422,000	155,153	957,272,000	\$ 673	\$ 6,170
NORTH CAROLINA	684,000	111,905	746,281,000	\$ 1,091	\$ 6,669
NORTH DAKOTA	55,000	7,831	47,143,000	\$ 857	\$ 6,020
OHIO	1,124,000	116,901	696,473,000	\$ 620	\$ 5,958
OKLAHOMA	324,000	64,442	518,630,000	\$ 1,601	\$ 8,048
OREGON	356,000	43,091	323,358,000	\$ 908	\$ 7,504
PENNSYLVANIA	1,283,000	131,900	819,960,000	\$ 639	\$ 6,217
RHODE ISLAND	102,000	13,520	92,926,000	\$ 911	\$ 6,873
SOUTH CAROLINA	367,000	60,540	385,791,000	\$ 1,051	\$ 6,372
SOUTH DAKOTA	70,000	11,874	80,400,000	\$ 1,149	\$ 6,771
TENNESSEE	495,000	77,998	522,999,000	\$ 1,057	\$ 6,705
TEXAS	1,556,000	252,694	1,702,837,000	\$ 1,094	\$ 6,739
UTAH	129,000	16,033	100,629,000	\$ 780	\$ 6,276
VERMONT	60,000	6,728	48,866,000	\$ 814	\$ 7,263
VIRGINIA	676,000	104,818	656,576,000	\$ 971	\$ 6,264
WASHINGTON	607,000	86,836	606,764,000	\$ 1,000	\$ 6,987
WEST VIRGINIA	188,000	30,582	234,905,000	\$ 1,249	\$ 7,681
WISCONSIN	481,000	51,912	334,521,000	\$ 695	\$ 6,444
WYOMING	43,000	6,369	41,602,000	\$ 967	\$ 6,532
Totals	<u>24,680,000</u>	<u>3,167,878</u>	<u>\$ 20,669,968,000</u>		
Average Per Veteran				<u>\$ 838</u>	
Average Per Claim					<u>\$ 6,525</u>

Source: VA National Statistics

USE OF STATE GRANT FUNDS BY VETERANS SERVICE ORGANIZATIONS

Schedule of Combined Recoveries

For Fiscal Year 1998-99

Category	Amount
Compensation New Claims	\$ 9,547,496
Compensation Increases In Awards	26,224,826
Compensation Hospital Ratings	1,437,112
Compensation Confirmed and Continued	21,338,585
Pension New Claims	11,083,748
Pension Confirmed and Continued	58,966,383
Education Benefits	2,369,515
VA Hospital Admissions	3,317,938
Miscellaneous	2,649,244
Dependency and Indemnity Compensation	4,014,738
Death Pension New Claims	1,646,244
Burial Allowance	110,959
Insurance	449,986
Special Categories	2,659,685
Eligibility Verification Report	128,492
Total	<u>\$145,944,951</u>

Source: 1998-99 Annual Report of Combined Recoveries and Activities.

USE OF STATE GRANT FUNDS BY VETERANS SERVICE ORGANIZATIONS

Methods of Computation and Definition of Terminology

This exhibit, taken from the Michigan Veterans Organizations' Rehabilitation and Veterans Service Committee's Annual Report of Combined Recoveries and Activities for fiscal year 1998-99, contains the methodology provided to the VSOs for computing recoveries by category.

COMPENSATION

New Claims - Monthly payments by the USDVA to a veteran because of service connection disability. Service connection is a particular injury or disease resulting in disability that was coincident with military service or if pre-existing such service, was aggravated thereby. Recoveries are computed on the basis of the total monthly amount for one year, plus retroactive.

Increases in Compensation - Compute the increase only over the previous credit. Example: Previous recovery shows 50%, second credit award shows 70% rating. Method of computation $70\% \text{ less } 50\% = 20\%$ computation times 12 months retroactive. YOU DO NOT COMPUTE THE ENTIRE AMOUNT - ONLY THE DIFFERENCE IN INCREASE.

Hospital Ratings - Paragraph 29 & 30 - Temporary 100% assignments. Step #1, compute 100% monthly payment (less schedular rating times hospital and convalescent period). Example: 30% prior to entrance into hospital, temporarily assigned 100% recovery. $100\% \text{ minus } 30\% = 70\%$ times period of time involved. Further, since the action constitutes a reopened service connected case, it is proper to take the restored Schedular Rating of 30% and times it by 12 months and report this as a recovery amount under Confirmed and Continued category (providing there was no other recovery report during the past 12 months).

Confirmed and Continued Compensation - A veteran is reevaluated on his compensation claim and the VA does not reduce or increase his rating. This is considered as a recovery because we have assisted in maintaining the award by our

representation. Compute the Confirmed and Continued rating by using the monthly amount 12 times.

PENSION

New Claims - Monthly payments to wartime veterans who became permanently and totally disabled from disability or disabilities not related to military service. In order to qualify, the veteran must also meet certain income and net worth limitations. Recoveries are computed on the basis of the total monthly amount for one year, plus any retroactive amount.

Confirmed and Continued - Any time a veteran, widow or child/children case has been reopened and is subject to continued entitlement by the VA and the award is maintained or increased, then a recover is proper because of our representation on the claim. Compute by monthly amount times 12 months.

NOTE: Eligibility Verification Reports processed by our office on Protected Pension. Section 306 cases meet the definition of Confirmed Continued can be computed. In the event you elect to report on the Eligibility Verification Reports, please show separately under Confirmed and Continued Category.

USE OF STATE GRANT FUNDS BY VETERANS SERVICE ORGANIZATIONS

VA Payments to Michigan Veterans

August 2000

	Live <u>Compensation</u>	Live <u>Pension</u>	Death <u>Compensation</u>	Death <u>Pension</u>
Polish Legion of American Veterans	\$ 2,057	\$ 2,881	\$ 881	\$ 1,925
Vietnam Veterans of America	766,680	130,190	66,569	5,054
Paralyzed Veterans of America	1,284,557	171,985	77,426	16,215
American Legion	3,567,145	1,054,434	925,202	255,593
AMVETS	1,232,060	439,030	281,604	70,461
Catholic War Veterans	20,219	1,498	1,103	
Disabled American Veterans	8,698,244	702,834	1,326,842	112,868
Jewish War Veterans	16,311	943	9,749	296
Marine Corps League	774,847	297,919	247,743	55,411
Military Order of the Purple Heart	759,073	185,207	95,802	24,648
Veterans of Foreign Wars	<u>3,973,974</u>	<u>1,046,112</u>	<u>1,102,167</u>	<u>267,786</u>
Totals	<u>\$ 21,095,166</u>	<u>\$ 4,033,033</u>	<u>\$ 4,135,088</u>	<u>\$ 810,257</u>

Source: USDVA Detroit Regional Office.

Glossary of Acronyms and Terms

AMVETS	American Veterans of World War II and Korea.
COLA	cost-of-living allowance.
compensation	Monetary benefits paid to veterans disabled by injury or disease incurred or aggravated during active military service.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
goals	The agency's intended outcomes or impacts for a program to accomplish its mission.
Internal Revenue Service form 990	An Internal Revenue Service, United States Department of Treasury, form required of most organizations exempt from income tax under section 501(c) or section 4947(a)(1) of the Internal Revenue Code for nonexempt charitable trusts.
objectives	Specific outputs a program seeks to perform and/or inputs a program seeks to apply in its efforts to achieve its goals.
pension	Monetary benefits paid upon discharge from active duty to permanently and totally disabled veterans with low incomes who meet other prescribed criteria.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.

performance indicators	Information of a quantitative or qualitative nature indicating program outcomes, outputs, or inputs. Performance indicators are typically used to assess achievement of goals and/or objectives.
performance standards	A desired level of output or outcome as identified in statutes, regulations, contracts, management goals, industry practices, peer groups, or historical performance.
power of attorney (POA)	A legal document granting an individual, such as a service advocacy officer, the legal capacity to represent a veteran in matters with the USDVA.
recovery	A representation of the monetary benefits received by a veteran from the USDVA.
reportable condition	A matter coming to the auditor's attention that, in the auditor's judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
<i>Standardized Travel Regulations</i>	Regulations administered by the Department of Management and Budget, State of Michigan, which specify meal, hotel, and mileage reimbursement rates and conditions associated with employee travel.
VA	United States Department of Veterans Affairs.
veteran	An individual who has served in the armed forces.
veteran service advocacy officer	Person who assists veterans in obtaining information, including service history and medical records, necessary to obtain benefits from the USDVA.
VSO	veterans service organization.